

VZCZCXRO5025
RR RUEHAST RUEHDBU RUEHFK RUEHKSO RUEHNAG RUEHNH
DE RUEHKO #7166/01 3620207
ZNR UUUUU ZZH
R 280207Z DEC 06
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC 9449
INFO RUEHAST/USO ALMATY 0390
RUEHAH/AMEMBASSY ASHGABAT 0137
RUEHTA/AMEMBASSY ASTANA 0010
RUEHBJ/AMEMBASSY BEIJING 5334
RUEHEK/AMEMBASSY BISHKEK 0178
RUEHDBU/AMEMBASSY DUSHANBE
RUEHNT/AMEMBASSY TASHKENT 0216
RUEHFK/AMCONSUL FUKUOKA 9359
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RUEHNH/AMCONSUL NAHA 1842
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RHEHAAA/NSC WASHDC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC

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DEPT PLEASE PASS TO SCA/DAS FEIGENBAUM
PLEASE PASS TO USTR BEEMAN

E.O. 12958: N/A

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SUBJECT: U.S.-JAPAN CENTRAL ASIA DIALOGUE: PART THREE,
JAPANESE VIEWS OF INVESTMENT CLIMATE IN CENTRAL ASIA

11. (SBU) Summary. Ministry of Economy, Trade, and Industry's (METI) Trade Policy Bureau Central Asia division head and a Japanese trading company researcher met separately with SCA/DAS Evan Feigenbaum on December 8 to discuss the difficult business and political climate in Central Asia. Political uncertainty, poor infrastructure, onerous regulation and other problems precluded most Japanese foreign direct investment (FDI); Japan's only investment in the region at the moment is through overseas development assistance (ODA). Interest in natural resources remains high, however, particularly in uranium, which is abundant, and in hydrocarbons. End Summary.

METI VIEWS ON INVESTING IN CENTRAL ASIA

12. (SBU) METI Trade Policy Bureau's Europe, Middle East and Africa Division Director Toshikazu Masuyama and Agency for Natural Resources and Energy Nuclear Facilities Development and Nuclear Fuel Cycle Industry Division Deputy Director Hirobumi Kayama met with DAS Feigenbaum to discuss the Japanese government's role in investing in Central Asia. Masuyama told Feigenbaum that Japan is shifting from liquefied natural gas (LNG) toward uranium extraction and civil nuclear cooperation. As the world's third largest consumer of uranium, Japan is specifically targeting Kazakhstan for its uranium, the deposits of which are the second largest in the world.

13. (SBU) Masuyama noted that Prime Minister Koizumi had traveled to Central Asia in August 2006 and that technical discussions culminated in the signing of a memorandum of understanding (MOU), which included a sentence declaring the importance of cooperation in nuclear energy. Masuyama added that Japan's Ministry of Foreign Affairs had to change its stance on nuclear cooperation in order for that sentence to be allowed into the MOU. This was an important symbolic result. Still, more tangible Japanese investment would require a change in the region's business environment. He

suggested, however, that the MOU might lead to larger cooperation with both Kazakhstan and Russia in the civil nuclear area. Japan is already involved in discussions over a joint venture with Kazakhstan to build a light water nuclear reactor as well as a mine and an enrichment facility. (Comment: Business sources have told the Embassy that Kazakhstan wants to increase its use of nuclear power and would like to build its own light water reactor. Because Kazakhstan relies heavily on Russia for its technology, it views Japan as a welcome counter-balance. The Japanese and Kazakh governments are still negotiating over the building of a light water reactor. End comment.)

14. (SBU) Masuyama reiterated that Japan's involvement in the region has been entirely in the form of ODA, not FDI. He stressed the need to improve the business environment for new projects to protect existing Japanese investment and bemoaned the authoritarian systems of government prevailing in the region, which largely ignored the complaints of foreign businesses. In Uzbekistan, in particular, Masuyama stressed the negative political and business climate and the campaign against U.S. and Asian businesses, including Japanese business. Feigenbaum noted that Newmont Mining, a major U.S. investment, had been driven from the country. Masuyama complained about the lack of predictability and transparency and claimed that business environment data often was fabricated by the Uzbek government. Feigenbaum raised USG support for WTO accession across the region. He noted Kazakhstan's bid to join the WTO, suggesting that Russia may accede before Kazakhstan, which would have interesting implications for Kazakhstan's own accession negotiations.

15. (SBU) Masuyama called for the rehabilitation of energy

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plants in Uzbekistan, noting that this is one way to earn Kyoto Protocol energy credits. He also recommended that bilateral and multilateral treaties be used to protect investments. Finally, he noted that the region's tourism industry could be expanded. Encouraging Japanese investment, SCA Senior Advisor Robert Deutsch raised USG efforts, along with the World Bank and others, to promote infrastructure development linking Central to South Asia, including development of hydroelectric power for Afghanistan, Pakistan, and beyond. He asked whether hydro-electric power might be a source of Kyoto Protocol credits. Masuyama noted that Japanese power generation companies are very conservative by nature and, thus, would not likely be interested in international business opportunities, such as those Deutsch had described. He added that Japanese trading companies have begun bilateral business dialogues in Kazakhstan, Uzbekistan, Turkmenistan and Azerbaijan, with each company dividing the labor and responsibility by focusing on one country each.

A PRIVATE COMPANY PERSPECTIVE

16. (SBU) Marubeni Research Institute Senior Analyst Patrick Ryan told DAS Feigenbaum that none of Marubeni's investment in Central Asia is foreign direct investment (FDI) and that this basically is true for all of Japan's other trading companies (Mitsui, Sumitomo, Itochu and Mitsubishi). The political and investment climate is such that no Japanese company is yet willing to risk direct investments in the region; the return ratio is simply too low. Ryan added that the region's poor infrastructures contributes to Japanese reluctance. Contracts to implement official development assistance (ODA) are a much safer vehicle for the trading companies because of government backing.

17. (SBU) Ryan explained that Marubeni's primary goal in Central Asia has been to organize consortiums for projects in infrastructure development. Marubeni's ODA projects have included building railways, roads, and airports, modernizing power plants, and installing gas pipelines. Among the many

difficulties the company faces in the region are import and export restrictions, parts and materials supply chain instability, anti-foreign sentiment, and the lack of suitable local partners.

¶8. (SBU) Ryan noted, however, that Japan is viewed as apolitical in Central Asia, allowing Japan to move into vacuums created by the lack of U.S. and other country investment. He added that although Japan companies, as well as Korean mineral extraction firms, have done well, most non-Russian companies struggle in the region. He added that Marubeni has offices in Tashkent and Almaty.

¶9. (U) SCA/DAS Feigenbaum has cleared on this cable.
DONOVAN